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General Business Conditions

THE most noteworthy feature of the business reports during May is an improvement in some of the depressed consumers' goods items, at the mill level. The pickup has not been broad enough to induce widespread buying, or to make much impression on general sentiment, but the manufacturers reached by it have the benefit of inventory relief and new business on their books. Their markets have been in the doldrums for a long time. But corrective forces meanwhile have been at work. Price cuts and retail promotions have made offerings more attractive, production has been curtailed at a progressive rate, and in soft goods particularly stocks between the mills and the consumer have been reduced. This is the way all slumps work themselves out.

The shoe industry, following excellent Easter sales and firmer prices of hides and leather, has plainly turned for the better and is stepping up production. Stiffening of prices of synthetic yarn fabrics indicates that those markets are getting in order again. Cotton print cloth mills had an encouraging bulge in sales for a few days in the latter part of the month, although the buying movement did not carry through in great volume or spread to other constructions.

In household equipment and automobiles also the suspension of Regulation W and easing of installment terms has been followed by a modest improvement in retail sales. Curtailment in output of refrigerators and like products is substantial and will continue so. Price reductions have been widespread. But inventories are large in many equipment items, and for this reason improvement will be slow to find its way back to the factories.

Commodity markets have been steadier during the month. Prices of a few farm products have been strong, and recoveries in wool and vegetable oils, as well as hides, have heartening implications for fall business in these lines. But some markets for industrial materials still look soft, and in general no change in the attitude of buyers is apparent. Purchasing agents have little trouble getting what they want, for scarcities have been steadily disappearing even in the metals. The nearly universal policy is to keep commitments short.

High Employment and Production

With business news mixed as it now is, people can find in the current reports almost anything that they look for. Those who consider that good business means sellers' markets, with a broad and active demand at profitable prices for almost everyone, find present conditions unsatisfactory. The situation favors buyers, and with the exception of the spring of 1949 this is something new in the war and post-war experience. On the other hand, those who measure the state of business by employment and by the aggregate production and consumption of goods and services will realize that in those terms the country is enjoying extraordinary activity.

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Statistical unemployment in the month of April totaled only 1,600,000, which was the lowest since last September. Industrial production indexes for April and May, when the returns are in, will be a few points under the record peacetime peak reached early last year and virtually duplicated in February. The drop is due in part to consumers' goods and other miscellaneous curtailment, but more to the steel and oil strikes. Steel mills and oil refineries have been going full blast since operations were resumed.

In the aggregate retail sales have been better than some of the current comment implies. Disappointing hard goods business keeps department store sales sluggish, but variety chains and shoe stores have turned in good results and active business in apparel, food, and the automotive group raised total April retail sales, seasonally adjusted, above March and above April last year.

There is no mystery about the supporting influences in the business situation. They are the defense expenditures, the backlogs of unfilled orders held by equipment manufacturers and heavy industry generally, and active construction. April construction figures were extremely good, with 108,000 housing starts, total contract awards 21 per cent above a year ago, and a heavy backlog of work in hand in most categories.

Even in the heavy lines buying has slowed somewhat, but the employment supplied and the purchasing power set in motion are undiminished. The fact that the swing of the consumers' goods cycle is taking place within a framework of sustained activity elsewhere should be encouraging to the depressed lines. If the heavy industries hold, improvement in the consumers' goods industries can be counted on; and present signs indicate that consumers' goods should do better before the others can turn down. Over the long run the caution in buying, and in sentiment generally, is likely to pay off by prolonging the period of activity.

The Crop Outlook

The 1952 crop season is progressing satisfactorily, after earlier unfavorable weather in some sections. Large crops are needed this year, particularly of feed grains, and the Department of Agriculture established goals calling for an increase of 6.5 million acres in plantings over last year. Thus far, the Department's crop reports have been both disappointing and gratifying. On the unfavorable side, the March report on spring planting intentions indicated that the acreage to be put into the principal crops, instead of being larger, will be about 1 million less than in 1951. The reduction is attributed in great part to a tight farm labor supply, lower farm product prices, and increased costs of production.

On the other hand, the May winter wheat crop report indicates a yield of 986 million bushels this year, nearly 40 million more than April's estimate. If realized, this year's crop would be the third largest winter wheat output on record.

Specifically, the prospective acreage in feed grains is reported about 1.5 million less than last year. This acreage, with reasonably good yields, would produce 121 million tons of feed, compared to estimated use of 125 million in the current feeding season, and the Department goal of 128 million. Floods and unseasonable weather in some areas prevented sowing of oats and barley on time, and as a result, more acreage has become available for corn and other later planted feed crops. This unexpected additional land, particularly if farmers have made increased use of fertilizers and thicker plantings, coupled with favorable weather, could still result in a record corn crop this year. But this is problematical, and in any event total feed grain supplies promise to be on the low side, compared with requirements.

Feed Grain Reserves Smaller

Despite the immense agricultural production the last few years, reserves of many of the important storable commodities have declined steadily since Korea. Most marked is the drop in stocks of feed grains. At the end of the crop year, Oct. 1, 1950, more than 30 million tons of feed grains were on hand. This year it is estimated that the reserve will be down to about 20 million tons, less than two months' supply. The corn carryover will probably be about 435 million bushels, compared with 860 million two years ago. In contrast, cattle numbers are at an all-time high and other livestock nearly so. Stocks of feed grains per grain-consuming animal unit are 10 per cent smaller than in 1951 and 15 per cent smaller than in 1949 and 1950.

Carryovers of other commodities have also been reduced. The cotton carryover next August 1 is expected to be only slightly above last year, when it was the lowest in twenty-six years. A large crop is needed, and the Department of Agriculture set a goal of 16 million bales on 28 million acres. Preliminary reports, however, indicate this acreage has not been planted. The wheat carryover next July 1 will

be nearly 125 million bushels below the 396 million of last year; but the coming crop probably will restore this cut, and more.

Even the large Commodity Credit Corporation inventories of various commodities built up under price support operations during recent years have been greatly reduced. In dollar terms, they now stand slightly over $1 billion compared with more than $2½ billion on June 30, 1950.

The present status of our inventory and reserve position emphasizes the need for good-sized crop production not only in 1952 but in the years ahead. Gus F. Geissler, Administrator of the Production and Marketing Administration and President of the Commodity Credit Corporation, U. S. Department of Agriculture, in a speech at the Minneapolis Farm Forum last March, declared:

> Farmers have been producing a lot, but it isn't enough. Unless we can check the downward trend in feed supplies, it will not be possible to continue the present high level of livestock and dairy production. Unless we can hold our own with all crops in general, and in fact begin to build up, we will not be able to continue providing the same per capita supplies for our expanding population and we will not be able to ship as much abroad to help provide the base for a solid peace.

Present prospects for hay and pasture are quite favorable, and if realized, will relieve the pressure on feed-grain supplies this summer, especially for beef cattle, dairy cattle, and sheep. But improved hog prices and a more favorable hog-corn price ratio in recent weeks may encourage heavier feeding of corn than expected a month ago. Of considerable concern is the dairy outlook. Production, although rising seasonably, is running behind last year. Affected by both tight-feed grain supplies and high wages of farm labor, per capita supplies of dairy products in 1952 may be the lowest in three decades.

Who Is "Big Business"?

Annual reports for the year 1951 contain more detailed information than has ever before been published on the operations of the country's leading corporations in the major industries. An examination of the comprehensive data available in these reports should quickly dispel the mystery and misconceptions that still exist as to who is "big business". Anyone interested can get the facts as to hoary old charges still circulating about "greedy corporate giants" which "exploit the workers" and are owned by "the priviliged few." The current figures show, much more effectively than words alone could do, how there is no inherent conflict, but instead a close partnership relation between the interests of employes and shareholders, with some people supplying the brains and labor, and others the tools and capital. Each group is necessary to the other. In addition, the reports for 1951 show the rapid ascendancy of a third "partner" in business — government — which although contributing neither capital nor labor now takes a lion's share of the profits.

The 100 Largest Industrial Companies

A broad and representative sample of "big business" is a group of the 100 largest manufacturing corporations in the U. S., based upon their total assets as reported at the end of the year 1951.

Total Assets, 100 Largest Manufacturing Corporations, as Reported at End of 1951 (In Millions)

Allied Chem. & Dye Cp.	$436	Philip Morris & Co.	$265
Allis-Chalmers Mfg. Co.	316	Nash-Kelvinator Corp.	190
Aluminum Co. of Amer.	640	Natl. Biscuit Co.	188
Amer. Can Co.	393	Natl. Dairy Prod. Corp.	387
Amer. Cyanamid Co.	374	Natl. Distillers Prod.	388
Amer. Radiator & S. S.	216	Natl. Lead Co.	230
Amer. Smelt.& Ref. Co.	363	Natl. Steel Corp.	453
Amer. Tobacco Co.	734	Ohio Oil Co.	265
Amer. Viscose Corp.	300	Olin Industries, Inc.	176
Anaconda Cop. Min. Co.	732	Owens-Illinois Glass Co.	206
Armco Steel Corp.	416	Phelps Dodge Corp.	337
Armour & Co.	503	Phillips Petroleum Co.	780
Atlantic Refining Co.	482	Pittsgh. Plate Class Co.	380
Bendix Aviation Corp.	210	Procter & Gamble Co.	397
Bethlehem Steel Corp.	1,542	Pullman, Inc.	208
Borden Co.	283	Pure Oil Co.	332
Borg-Warner Corp.	229	Radio Corp. of Amer.	370
Burlington Mills Corp.	276	Republic Steel Corp.	692
Caterpillar Tractor Co.	254	R. J. Reynolds Tob. Co.	578
Celanese Corp. of Amer.	335	Reynolds Metals Co.	319
Chrysler Corp.	758	Richfield Oil Corp.	202
Cities Service Co.	978	St. Regis Paper Co.	205
Coca-Cola Co.	221	Schenley Industries, Inc.	438
Continental Can Co.	299	Shell Oil Co.	792
Continental Oil Co.	312	Sinclair Oil Corp.	880
Crane Co.	172	Singer Mfg. Co.	355
Crown Zellerbach Corp.	200	Skelly Oil Co.	234
Deere & Co.	384	Socony-Vacuum Oil Co.	1,792
Distillers Cp.-Seagrams	447	Stand. Oil Co. of Calif.	1,366
Dow Chemical Co.	427	Stand. Oil Co. (Ind.)	1,801
E. I. du Pont de N.&Co.	1,599	Stand. Oil Co. (N. J.)	4.707
Eastman Kodak Co.	461	Stand. Oil Co. of Ohio	278
Firestone Tire&Rub. Co.	459	J. P. Stevens & Co.	265
Gen. Amer. Trans. Cp.	195	Sun Oil Co.	379
Gen. Electric Co.	1,460	Swift & Co.	480
Gen. Foods Corp.	292	Texas Company	1.549
Gen. Motors Corp.	3,672	Tide Water Assoc. Oil Co.	328
B. F. Goodrich Co.	416	Union Carbide & Car. Cp.	978
Goodyear Tire & Rub. Co.	659	Union Oil Co. of Calif.	381
Gulf Oil Corp.	1,512	United Aircraft Corp.	231
Inland Steel Co.	381	U. S. Gypsum Co.	198
Inter. Bus. Mach. Corp.	394	U. S. Rubber Co.	463
Inter. Harvester Co.	909	U. S. Steel Corp.	3,141
Inter. Paper Co.	448	Walker-Gooder. & Worts	190
Johns-Manville Corp.	177	Western Electric Co.	748
Jones&Laughlin Stl. Cp.	592	Westinghouse Elec. Cp.	1,004
Kaiser Steel Corp.	190	Weyerhaeuser Timb. Co.	300
Kennecott Copper Corp.	687	Wheeling Steel Corp.	215
Liggett&Myers Tob. Co.	480	Wilson & Co.	176
Monsanto Chemical Co.	262	Youngstown Sh. & Tube Co.	439

Total assets are shown after deducting reserves for depreciation. Table does not include Ford Motor Company, with total assets of $1,469 million on Dec. 31, 1950, and United Fruit Company, with total assets of $365 million on Dec. 31, 1951, which companies do not publish detailed income accounts.

An examination of this list reveals the vast size of these well-known organizations, which are the back-bone of numerous basic lines of business which require heavy capital investment for mass output and low costs.

In many other lines, small companies predominate, while all of the large companies deal with literally thousands of smaller ones as suppliers and distributors. In all branches of manufacturing there are now more than 100,000 corporations, plus almost 200,000 individual proprietorships, partnerships, etc.

At the end of 1951 the 100 largest manufacturing organizations reported total assets aggregating $60,128 million. If for convenience these and other figures are expressed as simple averages per company of the combined totals reported by the 100 largest, the average size company would have total assets of $601 million. These assets include land, plant, and equipment carried on the books at $253 million, after deducting reserves for depreciation and depletion, which is far below present-day replacement costs. Other assets, including cash, government securities, inventories, and receivables, came to $348 million.

The average employment last year was about 42,000 per company, so these total assets represented an average investment of $14,000 per employee. Among the big companies representing different industries, however, the investment per job varied widely. It averaged about $7,000 for tires, autos, electrical equipment, and food products, $10,000 for machinery and equipment, $11,000 for steel, $13,000 for textiles, $14,000 for paper, and $15,000 for nonferrous metals. It rose to $17,000 for chemicals, $37,000 for petroleum, $40,000 for distilling, and $50-000 for tobacco products.

It might surprise many people, who have heard it said repeatedly that American industry is controlled by a "privileged few", to learn that 52 of the 100 largest industrial corporations actually have more shareholders than employes. The extremely wide distribution of ownership in many of these is illustrated by the accompanying list of those reporting more than 50,000 registered shareholders. Corresponding figures as to the number of employes are given for comparison. A great many employes have become shareholders also.

Several companies in their 1951 annual reports gave detailed classifications of their shareholders at the year-end. United States Steel, for example, showed that its women shareholders number 119,662, men 98,603, and joint accounts 32,063, making a total of 250,328 individual holders. In addition, there are 17,898 trustees or institutions with stock registered in their names for large numbers of beneficiaries. These include 12,425 trustees, guardians and estates, 1,817 charitable, educational, religious, and medical institutions, 1,726 industrial and other companies, 1,704 brokers, nominees and others, and 226 insurance companies. More than three-quarters of the shareholders of the preferred and common stock own less than 100 shares each. No individual owns as much as 3/10 of one per cent of either the preferred or common.

U. S. Manufacturing Corporations Reporting Over 50,000 Shareholders at End of 1951, and Corresponding Number of Employes

	Shareholders	Employes
American Radiator & Std. San. Corp.	67,004	22,581
American Tobacco Co.	75,017	19,000
Anaconda Copper Mining Co.	118,616	39,672
Armco Steel Corp.	53,718	28,032
Bethlehem Steel Corp.	98,207	152,578
Borden Company	51,479	32,475
Chrysler Corporation	92,200	114,850
Cities Service Co.	203,402	21,802
E. I. duPont de Nemours & Co.	138,168	86,874
Eastman Kodak Co.	69,510	69,100
General Electric Co.	252,993	210,200
General Foods Corp.	66,375	17,825
General Motors Corp.	478,924	469,197
International Harvester Co.	71,000	93,461
Kennecott Copper Corp.	87,657	26,594
National Biscuit Co.	66,682	29,480
National Dairy Products Corp.	63,797	43,399
Phillips Petroleum Co.	70,233	20,618
Radio Corporation of America	186,592	57,657
Republic Steel Corp.	65,229	69,545
R. J. Reynolds Tobacco Co.	71,784	11,469
Sinclair Oil Corp.	100,687	22,112
Socony-Vacuum Oil Co.	158,000	64,000
Standard Oil Company of California	104,857	32,339
Standard Oil Co. (Indiana)	116,800	49,740
Standard Oil Co. (New Jersey)	254,000	120,000
Swift & Company	64,440	76,000
Texas Company	113,642	39,747
Union Carbide & Carbon Corp.	102,460	65,000
United States Steel Corp.	268,226	301,328
Westinghouse Electric Corp.	102,912	108,654

In contrast with companies whose stock is widely distributed there are still numerous large manufacturing enterprises which are family-controlled or closely held. Over a period of time, however, these all tend to extend their number of shareholders and thereby broaden the market for their stocks, in connection with the liquidation of estates to raise money for the payment of stiff inheritance taxes. For the 100 largest industrial companies, the average number of shareholders is 54,000. Thus for every four employes, there are five shareholders. Their equity was carried on the company's books at $397 million, represented chiefly by 9,164,000 shares of common stock. The balance of $204 million assets in excess of the shareholders' equity was represented by current and long-term debt, plus reserves.

Distribution of Income

As shown in the condensed summary below of the per company average of the combined operating totals reported by the 100 largest manufacturers, the receipts from sales and other operations in 1951 amounted to $781 million.

Total costs came to $727 million, of which $419 million or more than half was represented by the costs of goods and services purchased

from others. Wages, salaries, and labor benefits (pensions, insurance, paid vacations, etc.) amounted to approximately $176 million or 22.5 per cent of sales. Such employment costs represented an average of $4,100 per employee. In addition to the direct employment costs, much of the charges for goods and services purchased was of course for payments to labor during earlier stages.

Average per Company of the Combined Operating Totals Reported by the 100 Largest U. S. Manufacturing Companies for Year 1951

(In Millions of Dollars)

	Average Amounts	% of Receipts
Total receipts from sales and other operations	$781.3	100.0
Costs:		
Costs of goods and services purchased from others, etc.	419.1	53.6
Wages, salaries, and labor benefits*	175.6	22.5
Reserves for depreciation and depletion	23.9	3.1
Federal income and excess profits taxes	67.3	8.6
Other federal, state, local, and foreign taxes†	41.6	5.3
Total costs of operations	727.5	93.1
Net income	53.8	6.9
Preferred and common dividends paid	27.8	3.6
Reinvested in the business	$ 26.0	3.3

*Partly estimated, on basis of payrolls reported by companies representing over 88 per cent of the total employment of the group. †Tax figures charged as costs are exclusive of gasoline and oil taxes of $2,177 million collected and remitted by the 20 petroleum companies in the group.

It will be seen that "big business" now devotes a major portion of its income to the support of "big government". The modern corporation has become an agency to marshal men and money not only for the mass production of goods, but also for the mass collection of taxes. Last year the 100 largest industrial organizations each paid an average of $67 million in federal income and excess profits taxes, and $42 million in other federal, state, local, and foreign government taxes. Their total direct tax bill of $109 million took 67 per cent of the balance before taxes. Such taxes were at the rate of about 14 cents for every dollar of sales. They amounted to nearly two-thirds of total payrolls, and to nearly four times the dividends paid to shareholders.

Total costs, as shown in the table, absorbed 93.1 per cent of the total receipts from sales and other operations. This left net income of about $54 million or 6.9 per cent of sales.

Cash dividend disbursements on the outstanding preferred and common stocks amounted to $28 million or 3.6 per cent of sales. The remaining $26 million or 3.3 per cent of sales was reinvested in the business, where it was applied to financing the large increases made in physical properties and inventories. In spite of almost half of net income having been plowed back into the business last year, and of substantial new money having been raised by the sale of additional stock, most of the corporate balance sheets reflect sharp increases in current debt, and many show a rise in long-term debt as well. In American industry's vast program of expanding capacity and production for meeting current defense and civilian demands, the expenditures on plant and equipment in 1951 were the largest of any year in history.

The Stabilization "Double Standard"

In the preceding article we have pointed out the essential partnership of employees and shareholders in the production and earnings of business enterprise. Examination of the rules for "stabilization" laid down by the Wage Stabilization Board and the Office of Price Stabilization reveals, however, the existence of two totally different standards of treatment, one for labor and another for industry, or, more properly, shareholders.

Labor is allowed, under WSB rulings, increases of 10 per cent above January, 1950 pay levels, plus cost-of-living increases above January 15, 1951, plus an unlimited total number of fringe concessions, which are individually limited only by general rules that they not set new patterns and that they are not above prevailing industry or area practice. The general rule of interpretation of these allowances has been extremely liberal—resulting, in the steel wage case, in a total package which would bring steel wages to a level about 28 per cent above their pre-Korea level.

Industry, on the other hand, has been subjected to a type of control which has more elements of profit control in it than of price control. Professor Sumner H. Slichter recently commented that "If wages were governed by the same rules as prices employees would be protected against rises in the consumer price index only up to July 15, 1951, but not beyond and would be given no relief until the purchasing power of their straight-time hourly earnings had fallen to 85 per cent of the average of the three best years in the period 1946-1949." The steel industry estimates that the price formula would prevent their asking relief until their net profit after taxes is 34 per cent below the pre-Korea base level.

Essential to an appraisal of the industry earnings formula is the realization that the formula treats of profits as a percentage return on investment, and allows no price relief until these profits, before taxes, drop below 85 per cent of the average of the best three of the four years, 1946-1949.

The steel industry, requiring a huge amount of capital investment, ran at approximately 90 per cent of capacity in the three base years, but in 1951 and so far this year, except for strike interruptions, has been running at full capacity or slightly above. The significance of this for purposes of price control is that the industry, at full utilization, can produce steel, providing other costs remain the same, at lower cost. The resulting higher margin of profit is a legitimate return to the shareholder, who must suffer through the lean years with little or no return on his investment. The effect of the industry earnings formula method of price control is, however, to drain off all or more of this profit increment, with consequent damage not only to the many millions of shareholders but also to the prospects of attracting new capital for investment.

Muddled Thinking

Much muddled thinking on the subject of profits, some of it officially encouraged by Washington, has served to becloud the fact that the average shareholder owns stock as an investment, on which his return is the dividend paid by the corporation. There is, over a period of years, or even months, a sizable fluctuation in market value of stocks, but even a rise in values does not accrue to the advantage of the shareholder until he sells, and he may well find he has suffered a capital loss, in dollar value or in terms of purchasing power, or in both when he does sell.

Cost increases occurring since July 15, 1951, are not allowed to be passed on by industry. This ruling, combined with the rising wage bills of the steel industry, is fast squeezing that industry into a controlled-profit position which eliminates the incentive to increase production.

The apparent attitudes of the WSB and the Price Stabilization authorities need little amplification here, as Labor Secretary Tobin's comment to the C.I.O. Steelworkers at Atlantic City that he felt "no obligation to be impartial" and Vice President Barkley's address to the same gathering received wide publicity.

In their deliberations on wage increases the WSB has searched into all the problems of the wage-earner in a period of rising costs, and in the steel case has even seen fit to adopt a base different than that applied in other stabilization cases. There has been further evidence of great effort on the part of the wage board to assure that workers in various groups should be properly "caught up" in their pay relationships with the most prospering of the labor groups.

It has yet to be shown, however, that the price board has shown the same, or any, interest in the position of the shareholder. Approximately a third of all dividends from American corporations are paid to persons whose incomes are less than $5,000 a year. These persons, as well as the others whose incomes come in whole or part from stock holdings, have been hurt by increases in the cost of living. They would like to be able to keep up in their incomes with the employees whose terms are set in large measure by the wage board. Their past earnings, invested in industry, have provided the huge accumulations of capital equipment which make possible our nation's production supremacy, but they have not received due consideration at the bargaining table.

Deficit Financing

While the Congress is wrestling with the task of cutting down scheduled increases in government spending which threaten to create a deficit of $12 to $14 billion in the fiscal year beginning July 1, the Treasury is moving to cover the seasonal deficit which will occur in any case during the July-December half of the fiscal year.

On May 1 the Secretary of the Treasury announced an offering of 2¾ per cent nonmarketable bonds of 1975-80 and books were opened for the receipt of subscriptions over the period May 19-29. This move closely followed the remodelling of the Savings bonds to strengthen their sales appeal; the new series E, J, and K Savings bonds went on sale May 1 and the series H current income bond was added June 1. Meanwhile, Treasury cash balances have been fortified by increased weekly issues of 91-day Treasury bills, $1.4 billion being raised by this means over the period April 10 to May 29.

The 2¾ per cent nonmarketable bonds represent an additional issue of the bonds offered in exchange, on a bond-for-bond basis, for the Seventh and Victory War Loan 2½s a year ago. On that occasion there was no element of cash subscription; the purpose was to reduce the outstanding supply of 2½ per cent bonds and to take some of the weight of potential liquidation off the bond market as the Federal Reserve Banks withdrew their price pegs and restored a free market for government bonds. The 2¾s are not salable in the open market, and the holder has no privilege of redemption prior to final maturity on April 1, 1980, although the Treasury reserves an option to call them for payment on any April 1 or October 1 date during the years 1975-79. The holder, however,

gets a way out in the form of a right to convert the bonds at any time into marketable five-year notes bearing 1½ per cent interest. Such notes in the present market are worth 98⅝. Thus a holder of the 2¾s, needing cash prior to maturity, can convert them into five-year notes and sell the notes in the market. In the process, under prevailing market conditions, he would suffer a moderate penalty in the shape of the discount on the five-year notes.

Terms of Payment

The Treasury was known to be considering an additional issue of the 2¾ per cent nonmarketables but there was considerable surprise at the terms of payment provided. The Treasury is allowing a subscriber the option of paying as much as three-quarters the cost of the bonds by surrender of any of four outstanding 2½ per cent bond issues — those maturing March 15, 1970, March 15, 1971, June 15, 1972, and December 15, 1972. Inasmuch as these bonds are below par, the presumption is that close to three-quarters of the subscriptions for the nonmarketable 2¾s will be paid for by the surrender of the 2½ per cent marketables. Subscribers who so desire can pay for the bonds in four equal instalments, June 4, August 1, October 1, and December 1.

In entering the long-term market for funds the Treasury has heavy competition to face. Public utilities and industrial corporations are floating bond issues in record volume to finance capital expansion; state and local governmental units are distributing securities to finance highway construction, school buildings, veterans' bonuses, etc.; and housing construction is giving rise to increased opportunities for mortgage investment. A 3 per cent rate had been recommended to the Treasury as the appropriate rate for long-term borrowing under the existing conditions and the preference of most investors is for a marketable bond that has daily market quotations and that can be bought or sold without complicating conversion features. The nonmarketable type of bond chosen by the Treasury on the present occasion involves a probable penalty if the holder wants to realize cash and offers little or no offsetting chance of capital gain.

Effect on Market

Under these conditions it is not remarkable that the announcement encountered some lack of enthusiasm. The preliminary announcement resulted in a brief run-up of the four issues of exchangeable 2½s from 98½ to above 99. After the subscription books were opened on May 19, the 2½s settled back to 98½. Three $1000 bonds purchased at this price, and surrendered along with $1000 cash for $4000 of the new 2¾s, would give the subscriber the new bonds at an average cost of 98⅞ and a yield on his investment of 2.8 per cent.

Subscription to the nonmarketable 2¾s had the greatest attraction to present holders of the exchangeable 2½s. A holder of $3000 principal value of the 2½s could surrender the bonds, invest an additional $1000, and increase his annual income from $75 to $110 a year, obtaining a return of $35 or 3½ per cent on his additional $1000 investment. Estimates of the amount of cash the Treasury would raise from the public ranged from $1 to $2 billion.

Savings Bonds

The redesign of the Savings bond program is intended to reverse the tendency, apparent over the last two years, for redemptions to exceed new sales. The hope is that the sales will more than take care of redemptions in the months ahead and provide some part of the funds required to cover the deficit. The new series H bond, paying current interest at an average rate of 3 per cent over its term of nine years and eight months, and offered at par up to a limit of $20,000 a year, should have a special appeal to people who have retired. It went on sale June 1 though actual deliveries of the bonds will be delayed for about sixty days.

American Assembly Recommendations

The American Assembly, meeting at Harriman, New York, May 18-22, had some thoughtful observations to make on questions of the budget and the public debt following four days' round-table discussions of the problem of inflation. Composed of eighty citizens, drawn from many walks of life and various sections of the country, the Assembly warned that, despite the current lull in consumer spending, inflation remains "a continuous and serious threat to the stability of the American economy and to the security of the entire Western world." There was agreement among the participants that huge government spending, accompanied by unbalanced budgets generally caused by war conditions, had been throughout history "the greatest single cause of inflation" and that "the utmost effort should be made to bring the federal budget into balance." The view was expressed that the Federal Reserve System, relying principally on indirect credit controls such as the discount rate and open market operations, should exercise its powers over the cost, supply and availability of credit so as to contribute to

general economic stability and to preserve the purchasing power of the dollar.

On the management of the public debt, the Assembly's report of conclusions had this to say:

> The round tables concluded that the large outstanding public debt is a powerful inflationary force, and held that the inflationary effect of the public debt can be minimized if the Treasury redirects a larger part of the debt into the hands of savers and savings institutions. In its borrowing operations the Treasury should strive to attract the savings of individuals, pension funds and savings institutions, by offering securities and interest rates designed to accomplish that purpose.

The Treasury's recent action in raising the interest on savings bonds was endorsed as "a step in the right direction", but no mention was made of the offering of nonmarketable 2¾s, or the borrowings on Treasury bills. These moves have impressed many people as of a less constructive character.

Structure of the Debt

By the President's budget estimates of January, the federal debt would rise from the current level of $259 billion to the existing statutory public debt limit of $275 billion on June 30, 1953. This is a drift that has to be resisted primarily by curtailment of spending programs. But, apart from the magnitude of the debt, the debt can have more or less inflationary influence depending on how it is made up. For example, Treasury bills, now outstanding in the record amount of $18¼ billion, are about as close to actual cash as any interest-bearing obligation can be. Savings bonds and notes, outstanding in the amount of $65 billion and redeemable on demand, have something the same character, not to mention $37 billion special demand obligations held by the old-age and other government trust funds.

There are also, approaching a cash status, $28 billion certificates of indebtedness and $18 billion in Treasury notes and $26 billion in Treasury bonds coming due within the next five years. Moreover, the $11½ billion nonmarketable 2¾s now outstanding can be brought down into the five-years' category any time the holder desires by conversion into notes. As the following table indicates, the portion of the public debt which matures beyond five years and allows no options of earlier conversion or redemption, amounts to only 20 per cent of the total public debt. Even this percentage, lowest in modern history, will be reduced by exchanges of long-term 2½s for nonmarketable 2¾s under the offer made by the Treasury during May. By way of comparison, on June 30, 1937, 55 per cent of the total public debt matured after five years and 41 per cent after ten years. The fact that the debt is so much bigger now makes a proper spacing out all the more important.

Structure of Public Debt as of May 20, 1952

	Amounts in Billions	Percentages of Total Debt	Cumulative Percentages
Redeemable on demand			
Special issues to gvt. trust funds	$37.0	14.3%	14.3%
Savings notes	7.4	2.9	17.2
Savings bonds	57.5	22.2	39.4
Other obl. red. on demand	3.6	1.3	40.7
Due within 1 year			
Treasury bills	17.9	6.9	47.6
Certificates of indebtedness	28.4	11.0	58.6
Due in 1-5 years			
Treasury notes	19.0	7.3	65.9
Treasury bonds	25.9	10.0	75.9
Convertible into 5 year notes			
2¾% nonmarketables previously issued	11.5	4.4	80.3
Due after 5 years			
Treasury bonds made exchangeable for additional 2¾% nonmarketables	14.7	5.7	86.0
Remaining Treas. bonds due after 5 years.			
Due in 5-10 years	9.8	3.8	89.8
Due in 10-20 years	23.7	9.2	99.0
Due after 20 years	2.7	1.0	100.0
Total	$259.1	100.0%	100.0%

Concluding Observations

The public debt, to be sure, was even more of an inflationary menace fifteen months ago when the Federal Reserve Banks were offering to turn into cash even the bonds furthest from maturity. Unpegging the bond market was the first logical step in dealing with inflationary implications of the swollen public debt. Meanwhile, partly by the sheer passage of time, but also by issuance of convertible nonmarketables in exchange for marketable obligations still having many years to run, the public debt is bulking up within the five years' category. Only one marketable bond issue with a maturity beyond five years has been issued by the Treasury in the past six years, and that issue, the $927 million 2⅜s of 1957-59 put out last March, was of a fairly short maturity.

A number of reasons have been given for the Treasury's reluctance to tap the market with a long-term issue. The one that has figured most prominently is the question of interest savings; it has been cheaper to borrow at short term. The offer of the nonmarketable 2¾s, as it works out, denies that the Treasury is excessively concerned by the interest cost consideration, for the actual cost of the new money raised on the transaction may approach 3½ per cent.

Another consideration, evident in the bond-price pegging carried on so long, and in the offerings of nonmarketables, is an excessively tender regard for the market prices of outstanding bonds and the capital gain or loss to the

holder of marketable government bonds. It is unreasonable for such holders to expect the Treasury, when issuance of long term marketable bonds is in the public interest, to refrain from offering such bonds just because additions to the supply would tend to depress prices of already outstanding issues. It is by such a process that a free market increases its absorptive power and permits government borrowing to displace private borrowing. Every intelligent investor in government bonds wants to see the public debt so managed as to check erosion of the money in which bond values are expressed. Market price movements are a secondary consideration.

Canadian Budgetary Policies

For the past six years, American taxpayers every April have noted with growing envy the results of government budget-making across the border in Canada. Year after year the Dominion Finance Minister, Douglas C. Abbott, has shown revenue surpluses, retirement of debt, and—with the exception of last year — reduced tax rates as well. Early last April, Mr. Abbott presented the latest of these budget statements to Parliament. Despite rising defense expenditures, he was able to announce a surplus of $356 million for the fiscal year ended March 31, 1952. Revenues at $4,024 million were the largest on record. Because of this favorable situation, Mr. Abbott found room to propose downward readjustment in tax rates. The 1952-53 budget is expected to show again a small surplus despite a further increase in national defense outlays, now nearly six times as high as before Korea.

This accomplishment naturally moves the American taxpayers to wonder how it was done.

In comparing U. S. and Canadian fiscal records, allowance must be made first for differences in budget accounting. The Dominion's ordinary budget covers a narrower segment of government housekeeping than does our federal budget. For example, it excludes foreign loans and advances to various government agencies, which our budget includes. If adjustments were made for such extra-budgetary outlays, Canada's record of budgetary surpluses would be considerably modified. But the real proof of the pudding is that Canada's national debt, whether counted on a gross, funded, or net basis, has been reduced since 1946 by some $2 billion. The gross (unmatured) funded debt of $16.5 billion in March 1946 was down to $14.7 billion, or 11 per cent, by March 1952. The U. S. national debt today is within 6 per cent of its wartime peak reached just after the Victory Loan, and is again rising.

Along with this debt reduction, four postwar tax reductions prior to the outbreak of the Korean war saved Canadian taxpayers some $1¼ billion, or over 40 per cent of Canada's peak war revenues. By contrast, the two tax cuts in the United States in the same period were estimated to equal about 23 per cent of our peak war revenues.

The Korean war and defense preparations have brought a sharp upturn in taxes in both countries. Canadian taxpayers have been subjected to two increases, while American taxpayers have been hit three times, including reimposition of a stiff excess profits tax on corporations. Today Canadian tax rates generally remain well below their wartime peaks, in contrast with the situation in this country, where personal, corporation and excess taxes have been restored to around their wartime peak. While Canadian tax proposals for this year are mainly towards easing the tax squeeze, President Truman has been asking for still more taxes from the American people.

Emphasis on Indirect Taxation

One reason for the relatively good fiscal position of Canada lies in the nature of the tax

Canada: Dominion Budgetary Revenues and Expenditures, 1949-1953
(In Millions of Canadian Dollars)

Fiscal Years Ending March 31	1949-50 Act.	1950-51 Act.	1951-52 Act.	1952-53 Est.
Budgetary Revenues:				
Direct Taxes (a)	1,301	1,557	2,212	2,678
Indirect Taxes (b)	1,022	1,228	1,498	1,541
Non-tax & Special Revenues	257	327	314	300
Total	2,580	3,112	4,024	4,514
Budgetary Expenditures:				
Nat. Defense & For. Aid	385	783	1,441	2,100
Veterans Affairs	228	209	208	228
Public Debt Charges (c)	470	438	441	435
Health and Welfare (d)	423	449	526	734
All other Expenditures	943	1,022	1,052	1,008
Total	2,449	2,901	3,668	4,505
Distribution in Per Cent				
Budgetary Revenues:				
Direct Taxes	50	50	55	59
Indirect & Special Taxes	50	50	45	41
Total	100	100	100	100
Budgetary Expenditures:				
National Defense & For. Aid	16	27	39	47
Veterans Affairs	9	7	6	5
Public Debt Charges	19	15	12	10
Health & Welfare	17	16	14	16
All other Expenditures	39	35	29	22
Total	100	100	100	100

Source: Bank of Canada Statistical Summary, April 1952: (a) Includes personal and corporate income tax (including the 2% Old Age Security taxes) excess profits tax, withholding tax on dividends, interest, etc. and succession duties. (b) Includes customs, excise and sales taxes (including the 2% Old Age Security tax on sales). (c) Includes interest, cost of loan flotations and amortization of discount, and premium, discount and exchange. (d) Includes family allowance payments, old age and blind pensions, subventions to provinces, total payments from the Old Age Security Fund (being the deficit plus the tax revenues of the Fund), general health grants and other expenditures of the Department of National Health and Welfare.

system itself. Indirect taxes — which have a great advantage of widening the tax base and reaching incomes otherwise untappable — have played a bigger role in Canada's federal revenue gathering than they have in this country. As will be seen in the foregoing table, indirect and special taxes before Korea accounted for some 50 per cent of Canada's total revenues, which contrasts with less than 20 per cent for the United States.

The chief indirect revenue producer in Canada is the general sales tax (imposed at the manufacturers' level), accounting in 1951-52 for 15 per cent of total revenue. Last year this tax was raised from 8 to 10 per cent. The 10 per cent special excise taxes on a wide range of consumer articles, such as motor cars, tires, radios, jewelry, clocks, etc., which had been raised from 10 to 15 per cent in 1950, were raised further last year to 25 per cent. Refrigerators, washing machines, and stoves, not previously taxed, were made taxable at 15 per cent. Mr. Abbott, in his budget speech a year ago, put the case well for additional reliance on indirect taxes when he said:

> Our problem is to get a good balance between taxes on earnings and taxes on spending. Taxes on spending, that is, taxes on commodities, do not adversely affect incentives to produce. In the case of taxes on commodities, government revenue is obtained not by reducing private income, but by placing a surcharge on private expenditure of certain kinds. This type of taxation has the advantage that it does not adversely affect the incentive to earn income, that is, to produce, and it does offer the consumer some choice as to whether he will spend, and pay the tax, or whether he will save and to that extent avoid the tax.

In the present budget, Mr. Abbott has taken cognizance of the improved budgetary position, lessened inflationary pressures, and more plentiful supplies of hitherto scarce materials by reducing the excise tax to 15 per cent, and by exempting the above-mentioned household appliances from the special tax altogether. The three cent tax increase per package imposed on cigarettes in last year's budget was rescinded, it having been found to yield, not the expected increase, but actually a decrease, in revenue.

Role of Income Taxes

With indirect taxes accounting for some 50 per cent of Canada's revenues before Korea, the remaining 50 per cent was divided about equally between personal and corporate income taxes. Postwar reductions and the simplification of the tax schedule had by 1949 brought the personal income tax for three out of four taxpayers to a rate of about 15 per cent of their net taxable income. The wartime corporation excess profits tax was abolished and the tax on ordinary corporate income reduced by 1949 to 10 per cent on the first $10,000 and to 33 per cent on the remainder.

With the launching of the defense program after Korea, however, direct taxes on income were called upon to play their part in financing the increased spending load. While basic exemptions and the percentage rate structure of the personal income tax were unchanged, a flat 20 per cent "defense surcharge" levied across the board. The flat increase was found to be inequitable and the new 1952-53 budget proposes a more reasonable rate of progression. Beginning July 1 a new 2 per cent social security tax will be coming into force.

During the war personal income taxes in Canada were higher than in this country. Now they are closer together, though precise comparison is difficult. In Canada, personal exemptions are more liberal and there is no capital gains tax. On the other hand, income splitting between husband and wife is not permitted in Canada.

Corporate Tax Boost

As for Canadian corporate taxes, the pre-Korean rates cited above were increased, and together with provincial taxes now collected by the Dominion Government and the new 2 per cent Dominion social security tax, come to 52 per cent in eight provinces and 54 per cent in Quebec and Ontario.

This compares with a top U. S. federal corporate normal and surtax of 52 per cent, plus excess profits tax at 30 per cent. Additional is the 1½ per cent federal social security payroll tax, as well as state income taxes where levied.

Yet Mr. Abbott expressed his concern that "conditions make it necessary to maintain in our tax structure rates as high as this on business profits . . . excessive rates of tax on corporate incomes if long maintained can do grave damage to the economy as a whole."

The new budget proposed making government corporations which in general compete with private business subject to the same corporate income taxes as private concerns. As Mr. Abbott explained, "one desirable result of the proposed action will be to make the financial statements of these crown companies more comparable with private industry, and make it easier to assess the relative efficiency of their operations." Adoption of the same principle in the U. S. would mean that government enterprises such as the federal power projects would be put on a closer footing with the investor-

owned public utilities instead of enjoying tax advantages. Thus they would be subjected to a fairer test as to their operating efficiency and alleged "savings" to consumers.

Canada's decision not to reinstate the corporate excess profits tax imposed during the years 1942-47 contrasts with the action taken in the United States after Korea. The reasons for rejection, as set forth in Mr. Abbott's budget proposals of September 1950, constitute a clear and authoritative statement of the case against this tax:

> To be efficient and fair an excess profits tax needs a recent base period representing normal operating conditions for various classes of business, and a tax related to the average profits of the last three years would not be likely to yield much revenue during the next year or two. But the more important objection at this stage is that an excess profits tax, particularly one at a high rate, becomes an invitation to extravagance and waste in corporate management, whereas, as I have already said, what we need most urgently now is maximum efficiency and production . . . Furthermore, in spite of our best efforts to make an excess profits tax as fair as possible there are bound to be severe inequities under this kind of legislation. Under conditions of total war, many businesses would be compelled to accept these inequities and hardships. I am reluctant, however, to impose this severe type of regulation under present circumstances.

Better Control of Expenditures

On the expenditure side Canada's burden of war and related to war outlays consisting of national defense, mutual aid contributions, veterans affairs and public debt charges, accounted during the 1951-52 fiscal year for about 57 per cent of total budgetary expenditures, or $149 per capita. For the same items the United States will have spent during the 1951-52 fiscal year about $56 billion or some 82 per cent of our total budget; the per capita figure is $359.

Canada and United States: Comparison of Debt Burdens and Natl. Defense Charges

(In Billions of National Currency except Population. Budget figures refer to fiscal years ended March 31 for Canada and June 30 for U. S.; other figures refer to preceding calendar years.)

	Canada		United States	
	1946-47	1951-52	1946-47	1951-52
Population (millions) (a)	12.31	14.01	141.4	154.4
Gross Natl. Product	12.03	21.24	211.1	327.8
National Income	9.82	17.28	180.3	275.8
National Debt (b)	16.54	14.70	258.3	260.0
National Defense Exp.	.39	1.44	14.3	39.4
Foreign Aid			6.5	5.0
Veterans Affairs	.60	.21	7.4	5.2
Public Debt Charges	.49	.44	5.0	5.9
War and Related Charges	1.48	2.09	33.2	55.5
Per Capita Figures and Relative Burdens				
Gross Natl. Product ($ per Cap.)	977	1,516	1,492	2,128
National Income "	798	1,230	1,275	1,786
National Debt "	1,344	1,049	1,827	1,684
War and Related Charges "	120	149	284	359
National Debt as per cent of Natl. Income	168	85	148	94
War and Related Charges as per cent of Natl. Income	15	12	18	20

Sources: U. S. Bureau of Census, U. S. Budget Bureau; U. S. Dept. of Commerce; Canada Yearbooks; Canadian Statistical Reviews and Canadian National Accounts. (a) Population as of July 1; (b) Gross unmatured funded debt for Canada, and estimated gross public debt for U. S.

Another way of measuring the burden of war and related to war charges is by comparing them with national income. It will be seen from the table below that on this basis the Canadian taxpayer escapes with a burden somewhat more than half as heavy as the American taxpayer.

In contrast with lighter defense burden, the Canadian budget is heavily weighted by politically popular health and welfare services which include family allowances for children and old age pension payments to all persons over 70, no questions asked. These services constitute a program not only one of the most ambitious in the world, but also one of the most expensive. During the current fiscal year they will require $734 million, or 16 per cent of total expenditure.

Apart from social services and national defense, "all other expenditures" have, as shown by the first table, been held down since the outbreak of the Korean war, and in fact have shown only moderate increase since World War II.

Growth of Canadian Economy

Finally, Canada's rapid economic development, particularly since Korea, has played an important part in its record of budget surpluses and debt retirement. For the year 1951-52 alone rising employment and incomes, combined with higher tax rates, boosted revenues 12 per cent over the previous year, and 8 per cent over the original estimate. At the same time, the lag in defense spending, experienced in other countries as well, helped to swell the budget surplus from the original forecast of $30 million to the actual $356 million.

Canada's industrial expansion boom has been nourished by a huge influx of foreign capital coming chiefly from the United States and amounting to nearly $1,600 million in the past two years. While the great investment opportunities in the development of Canada's natural resources and manufacturing industries have afforded a natural attraction to foreign capital, the influx must reflect also approval on the part of foreign investors of the financial and fiscal policies of the Dominion and confidence in fair treatment.